

# **VOLVO**

## **First Six Months 2001**

Telephone conference

July 24, 2001

# Highlights

## *Second Quarter*

- Business conditions
  - North America continues to be weak
  - Downturn in Europe
- Continued solid development within Penta and Aero
- Global Trucks
  - Integration process on track
- Powertrain
  - Agreement with Navistar
  - Engine platforms decision / D16
- Financial Services
  - Volvia and Volvofinans divested
  - Credit losses in US
- Divestment of shares in MMC completed

## *In Focus Going Forward*

### Short Term

- Adapting to market cyclicality
  - Personnel reductions
  - Inventory corrections
  - Focus on cash flow

### Long Term

- Building a future industrial structure
  - Renault V.I. and Mack integration
  - Powertrain

# Sales by Market Area

## First Six Months 2001

SEK M	Percent of Total	Second Quarter			First Six Months	
		2001	2000	Change %	2001	Change %
Western Europe	50	23,624	15,381	54	47,321	55
Eastern Europe	3	1,427	852	67	2,626	63
North America	33	15,354	10,573	45	28,795	46
South America	4	1,727	1,181	46	3,106	45
Asia	6	2,756	2,223	24	4,697	18
Others	4	2,210	760	191	4,303	216
<b>Total</b>	<b>100</b>	<b>47,098</b>	<b>30,970</b>	<b>52</b>	<b>90,848</b>	<b>53</b>

- H1-2001 sales growth mainly through the Renault V.I. and Mack acquisition
  - total excl. Renault V.I. and Mack increased by 5%
- Excl. Renault V.I. and Mack H1-2001 net sales;
  - Western Europe increased by 5%
  - Asia, E.Europe and S.America increased by 19%
  - North America decreased by 8%

# Sales by Business Area

First Six Months 2001

SEK M	Percent of Total %	Second Quarter			Change %	First Six Months	
		2001	2000			2001	Change %
Global Trucks	64	30,128	15,781	91	60,090	94	
Buses	11	4,915	4,556	8	8,630	3	
Construction Equipm.	13	6,067	5,438	12	10,755	7	
Marine & Ind. Power Sys.	4	1,976	1,725	15	3,712	12	
Aero	6	3,060	2,731	12	5,667	13	
Other & Eliminations	2	952	739		1,994		
<b>Volvo Group</b>	<b>100</b>	<b>47,098</b>	<b>30,970</b>	<b>52</b>	<b>90,848</b>	<b>53</b>	

- Global Trucks - Renault V.I. and Mack included from 2001
- Buses - Sales value increased due to higher translation rates
- Construction Equipment - Best quarter ever
- Marine and Industrial Power Systems - Strong sales development in all business segments
- Aero - Improved sales in Aerospace Components and Aviation Support Services

# Operating Income by Business Area

## First Six Months 2001

SEK M	Percent of Total %	Second Quarter		Change %	First Six Months 2001	Change %
		2001	2000			
Global Trucks	30	639	31	na	789	na
Buses		(25)	180	na	(108)	na
Construction Equipm.	19	408	740	(45)	489	(53)
Marine & Ind. Power Sys.	10	222	197	13	389	30
Aero	13	286	278	3	446	15
Financial Services	3	63	678	(91)	176	(84)
Other & Eliminations	25	530	403		444	
<b>Volvo Group</b>	<b>100</b>	<b>2,123<sup>1</sup></b>	<b>2,507</b>	<b>(15)</b>	<b>2,625<sup>2</sup></b>	<b>(39)</b>

- Global Trucks - Downturn in North America and capital gain MMC
- Buses - Reduced volume and low capacity utilisation
- Volvo CE - Negative market and product mix
- Marine and Industrial Power Systems - Continued strong operating margin
- Aero - Strong performance within Aerospace Components
- Financial Services - Stabilisation of US truck portfolio

1) incl. SEK 451 M capitalisation of development costs 2) incl. SEK 941 M capitalisation of development costs and excl. restructuring charges

# First Six Months 2001 Consolidated Results

SEK M	Second Quarter			First Six Months		Change %
	2001	2000	Change %	2001	2000	
<b>Net sales</b>	<b>47,098</b>	<b>30,970</b>	<b>52</b>	<b>90,848</b>	<b>59,244</b>	<b>53</b>
<b>Gross income</b>	<b>8,211</b>	<b>6,064</b>	<b>35</b>	<b>15,725</b>	<b>11,510</b>	<b>37</b>
R&D expenses	(1,357) <sup>0</sup>	(1,281)		(2,751) <sup>1</sup>	(2,463)	
Selling expenses	(3,599)	(2,264)		(6,977)	(4,371)	
Administrative expenses	(1,776)	(1,087)		(3,435)	(2,250)	
Other op. income & expenses	(815)	289		(1,511)	289	
Income from Financial Services	63	678		176	1,128	
Income from investments in shares	1,396	108		1,398	464	
Items affecting comparability	0	0		(1,319)	0	
<b>Operating income</b>	<b>2,123</b>	<b>2,507</b>	<b>(15)</b>	<b>1,306</b>	<b>4,307</b>	<b>(70)</b>
Interest net	(262)	2		(535)	113	
Other financial items	(49)	(79)		(210)	(102)	
<b>Income after fin. items</b>	<b>1,812</b>	<b>2,430</b>	<b>(25)</b>	<b>561</b>	<b>4,318</b>	<b>(87)</b>
Taxes	(465)	(521)		(43)	(1,150)	
Minority interest	9	(23)		37	(15)	
<b>Net income</b>	<b>1,356</b>	<b>1,886</b>	<b>(28)</b>	<b>555</b>	<b>3,153</b>	<b>(82)</b>
EPS, SEK	3.20 <sup>2</sup>	4.20		1.30 <sup>3</sup>	7.10	
Operating margin, %	4.5	8.1		1.4	7.3	
Operating cash flow, excl. acq. & divest.	1,400	(0,300)		(0,100)	(1,700)	

0) SEK 451 M capitalisation of development costs 1) SEK 941 M cap. costs 2) Average number of shares 419.4 M 3) Average number of shares 425.4 M

# Volvo Global Trucks

## First Six Months 2001

SEK M	Second Quarter			First Six Months	
	2001	2000 <sup>1</sup>	Change, %	2001	Change, %
Volume (units)	39,945	47,861	(17)	82,084	(14)
Sales	30,128	30,354	(1)	60,090	0
Operating income	639 <sup>2</sup>	205	212	789	(49)
Operating margin	2.1%	0.7%	1.4	1.3	(1.3)
ROC, 12M	0.3%	na	na	0.3%	na

### Highlights

- Decreased deliveries in North America and Western Europe
- Increased market shares
- Downturn in North America levelling off at a low level
- Slowdown in Europe
- Capacity adaptation
  - personnel reduction by 3,300
  - 58 “down days” at Mack (incl. Powertrain) and 20 “downdays at VTNA
- Complete Mack Granite and Freedom ranges launched

### In Focus

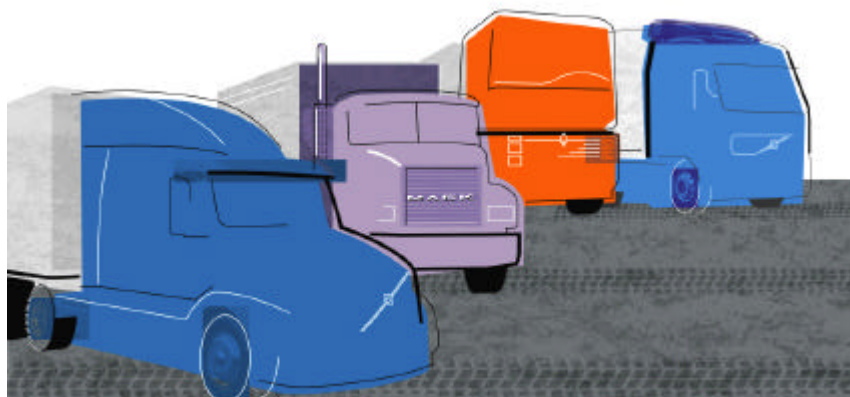
- Managing North America downturn
- Focusing on slowdown in Europe
- Decisive profit improvement program
- Strategic core project program

<sup>1)</sup> Proforma

<sup>2)</sup> Net gain of MMC divestiture SEK 574 million and SEK 363 M capitalisation of development costs

# Volvo Global Trucks

## Deliveries



<b>Units</b>	<b>January - June 2001</b>	<b>January - June 2000<sup>1</sup></b>	<b>Change %</b>
Total Europe	52,262	53,596	(2)
of which:			
Western Europe	48,783	50,431	(3)
Eastern Europe	3,479	3,165	10
North America	19,898	32,480	(39)
South America	2,986	2,232	34
Asia	2,230	2,912	(23)
Rest of the world	4,708	3,830	23
<b>Total</b>	<b>82,084</b>	<b>95,050</b>	<b>(14)</b>

<sup>1)</sup> Pro forma



# Monthly Order Intake vs. Build Rate

## Heavy Trucks in North America



- Market situation first 6 months**
- Industry build rate slightly above order intake
  - Excess industry inventory until at least fourth quarter
  - Continued price pressure
  - Tough dealer situation
- Signs of stabilisation**
- Stable inventory reduction
  - Interest rates reduced six times
  - Tax cut program
  - Diesel prices decreasing

# Volvo Global Trucks

## Profit Improvement Program, Phase II

- Price management implementation -  
Mack, Renault V.I. , Volvo Trucks and Parts
- Decisive line rate and workforce reduction program -  
North America and Europe
- Distribution efficiency program -  
North America and Europe (Volvo Trucks)
- Sales & Administration cost reduction
- Product cost improvement

Adapt costs to current market conditions

# Activity List First 200 Days

## Integration Mack / Renault V.I. / Volvo Trucks

### First 100 days

- ✓ Secure Start-up Capturing
  - Financial, legal and operational control
- ✓ Implement Global Organization and Processes
  - Global organization of 3P and Powertrain
  - Brand organizations
- ✓ Establish Business Plan and Budgets
  - Strategic directions and growth plans
  - Performance targets for each organization
- ✓ Decide on Product Plans
  - Establish and decide upon common product plans
- ✓ Communication
  - Business fit/ rationale
  - Customers, dealers, employees, business community
- ✓ Capture Synergy Potentials
  - Share and transfer best practices
  - Identify and capture immediate synergies

### Second 100 days

- ✓ Developed a Strategic Core Project Program
  - North American and European Optimization
  - Purchasing & Product Development
  - Warranty Cost Reduction & Capital Efficiency
- ✓ Further Developed Product Plans
  - Heavy & Medium duty program
  - Two engine platforms (incl. 16 liters engine)
- ✓ Established Multi-Brand Management Platform
  - Strategic direction established
- ✓ Began Cultural Integration Project
  - First step implemented
- ✓ Captured Additional Synergies
  - Ahead of plan
- ✓ Strengthened the Management Team
  - Appointed three new executives

# Volvo Global Trucks

## Summary

- Integration work running according to plan
- The North American market downturn levelling off -- at a low level.
- Downturn in North America now affecting Europe
- Decisive Profit Improvement Program
  - Personnel Reduction & Cost Improvement
  - Price Management Implementation
- Strategic Core Project Program

# Volvo Aero

## First Six Months 2001

SEK M	Second Quarter			First Six Months	
	2001	2000	Change, %	2001	Change, %
Sales	3,060	2,731	12	5,667	13
Operating income	286 <sup>1</sup>	278	3	446	15
Operating margin	9.3%	10.2%	(0.9)	7.9%	0.2
ROC, 12M excl. Aero Serv.	21.5%	28.7%	(7.2)	21.5%	(7.2)

### Highlights

- Still strong performance within Aerospace Components
- Reduced traffic growth / Airline profitability
- New contracts with Rolls-Royce and American Airlines

### In Focus

- Delivery performance
- Supply chain management
- Improving profitability in after market services

1) incl. SEK 6 M capitalisation of development costs

# Volvo Construction Equipment

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## First Six Months 2001

SEK M	Second Quarter			First Six Months	
	2001	2000	Change, %	2001	Change, %
Sales	6,067	5,438	12	10,755	7
Operating income	408 <sup>1</sup>	740	(45)	489	(53)
Operating margin	6.7%	13.6%	(6.9)	4.5%	(5.9)
ROC, 12M	11.0%	19.2%	(8.2)	11.0%	(8.2)

### Highlights

- Best quarter ever in terms of sales
- North America down 17 % on heavy equipment
- Op. Inc. affected by geographical and product mix and increased price pressure
- Redundancy program launched

### In Focus

- Managing and execution of redundancy program
- Capitalisation on new product launches

1) incl. SEK 33 M capitalisation of development costs

# Volvo Buses

## First Six Months 2001

SEK M	Second Quarter			First Six Months	
	2001	2000	Change, %	2001	Change, %
Volume (units)	2,727	2,778	(2)	4,844	(10)
Sales	4,915	4,556	8	8,630	3
Operating income	(25) <sup>1</sup>	180	na	(108)	na
Operating margin	(0.5%)	4.0%	(4.5)	(1.3%)	(3.8)
ROC, 12M	0.6%	6.1%	(5.5)	0.6	(5.5)

### Highlights

- Continuing market down turn in Europe and North America
- Volvo Buses; Positive development in South America, Mexico and China
- Adaptation of production volume to changed market conditions

### In Focus

- Continued change of industrial structure - low capacity utilisation in Europe and N.America
- Nova Bus restructuring
- TX platform introduction program continued

1) incl. SEK 34 M capitalisation of development costs

# Volvo Penta

## First Six Months 2001

SEK M	Second Quarter			First Six Months	
	2001	2000	Change, %	2001	Change, %
Sales	1,976	1,725	15	3,712	12
Operating income	222 <sup>1</sup>	197	13	389	30
Operating margin	11.2%	11.4%	(0.2)	10.5	1.4
ROC, 12M	47.8%	39.6%	8.2	47.8%	8.2

### Highlights

- Strong sales development in all business segments
- All time high order intake for diesel engines
- Continued expansion of the industrial and marine commercial segments

### In Focus

- Increased diesel sales in the US
- World market trend in the marine leisure business

1) incl. SEK 15 M capitalisation of development costs



# Volvo Financial Services

## First Six Months 2001

SEK M	Second quarter			Six months	
	2001	2000	Change	2001	Change
Operating income	63	678 <sup>1</sup>	(91%)	176	(84%)
ROE	5.7%	12.4%	(6.7)		
Assets, MSEK	70,057	58,940	19%		
Equity ratio	10.7%	12.8%	(2.1)		

### Highlights

- Stabilisation of US truck portfolio
  - reduction of non-performing units
  - increased provisions
- Customer Finance (excl.US), Insurance, Real Estate and Treasury positive developments
- Provisions for US truck portfolio offset by capital gain on Volvia

### In focus

- Action program in US continued
  - new NAFTA-president appointed
  - increased spreads
- RVI and Mack Financial Services
  - full integration Q4
- Further growth prospects
  - integrated offer for all BA's
  - development of insurance

1) Incl 438 MSEK mainly of capital gain on sale of Volvia's equity investments

# Summary

- Business conditions
  - North America continues to be weak
  - Downturn in Europe
- Cyclical adjustments
- Continued solid development within Penta and Aero
- MMC
  - Transaction completed / Payment received
- Global Trucks
  - Integration proceeding as schedule
  - Product platform decision
- Powertrain
  - Agreement with Navistar
  - Decision on two engine platforms